

## EXHIBIT 1

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# Catalina Yachts: One Big Family

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You may not be able to win the war, but you can win occasional battles. Regardless of the odds, you must fight! Now's the time to meet your opponent.

Call the Woodland Hills headquarters of Catalina Yachts in California, and one thing strikes you right away about the choices the telephone answering system offers you. One option is for Frank Butler. That's rare access in today's hectic business world, but it shows what makes Catalina unique - the constant guiding hand of Frank Butler, who founded the company in 1970.

 Catalina 22, hull #1, sails in the One of a Kind Regatta on Lake Michigan in 1970. The crew, from left: Rod Mortenson, Beattie Purcell, Lee Buffum, and Herbie Mortenson.

Catalina 22 hull #1, 1970 Catalina 22, hull #1, sails in the One of a Kind Regatta on Lake Michigan in 1970. The crew, from left: Rod Mortenson, Beattie Purcell, Lee Buffum, and Herbie Mortenson.

The stories are legendary among Catalina owners. Call the factory about a warranty item, and chances are you'll end up speaking with Frank himself. Why such access? "I've always been that accessible," he says. "It's the only way to be in this business."

Catalina is the largest sailboat manufacturer in the United States. That means Frank Butler has a lot of customers to keep happy, something he obviously relishes.

Born in California in 1928, Frank joined the Navy and attended college before beginning his working life in the engineering field. "I was hired as an engineer in a government facility, and they found out I had lied about having five years' experience. They called me in several months later when they found out, and I

admitted it was true. I then told them either they could fire me or give me a raise. I got the raise."

He continues, "I've always had a love for engineering, and drawing came very easily to me. Working with my hands always came more easily to me than schoolwork." Frank went on to start Wesco Tool, his own machine shop, and became a supplier of component parts for the aircraft industry. "I did a lot of work with that industry," he says. "I'd often go to plants and work with the engineers, help them with designs, or help with engineering problems when they asked me to."

## Late start

By the late 1950s Frank was sailing dinghies for relaxation. "I was 30 before I really took up sailing," he says. While it was a late start in life compared to most boatbuilders, it opened up a chapter in what was to become Frank Butler's life's work.

Eventually, he wanted something larger than a dinghy so his growing family could enjoy sailing together. Says Frank, "The first boat I bought [for the family] was a Victory 21." But his first boatbuying experience wasn't a good one. The builder was strapped for cash, and when Frank arrived to pick up his boat on the appointed day, neither the boat nor the owner was to be found. He quickly assessed the situation and basically began to build the boat himself with help from some of the builder's

employees, all but commandeering the plant until he finished it.

What made him think he could build a boat? "I never even thought about it," he responds. "It was either that or lose my money." Despite that initial experience, Frank made a loan to the builder. When the builder couldn't pay back the loan, he offered Frank some tooling and materials to build other boats, which Frank accepted. He had the boatbuilding bug and couldn't resist the challenge. He founded a company he called Wesco Marine in 1961 and began building small sailboats. He later changed the name to Coronado Yachts. He still owned Wesco Tool as well.

One of the first people he hired in 1962 for his fledgling boatbuilding company was an Irishman named Beattie Purcell. "I met Beattie through a mutual friend," Frank says. "He had the sailing experience, and I had the manufacturing experience. He and I worked well together. But in those days we all did everything - manufacturing, sales, marketing. It didn't matter."

Catalina's Three Musketeers: Sharon Day, Gerry Douglas, and Frank Butler.

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## Tremendous growth

"I happened to be in Canada at the time. I came down and started working for Frank at Wesco Marine long before there even was a Catalina Yachts," Beattie recalls. "I started off building small boats with the

fiberglass, and then I got into rigging. We were building a 14-footer and a 21-footer. We started off pretty small but grew tremendously. Fiberglass was in its infancy and just took off. We definitely started at the right time. I also started sailing in different regattas for Frank to promote the boats, which worked out well." In line with the notion that everyone did everything, Beattie also designed the letterhead for the stationery and the exterior sign on the building.

"Frank also had Wesco Tool at the same time," Beattie continues. "We started in Burbank, but we got bigger and had to move to another location. Frank was a busy man running both businesses. But he has great insight, and he listens to people."

The first notable boat design was the Coronado 25 in 1964. States Frank, "I designed it, and a fellow helped me with the tooling for it. The Coronado 25 was the first boat to have a full pan liner in the hull. Before that, manufacturers built components and dropped them into the hull, like a wood-shop approach. It was expensive and more time-consuming.

"I got the idea for the pan liner from Lockheed and how they built planes. I saw lead molds at Lockheed for airplane parts and thought, Why not apply that to building boats?" Frank remembers.

## They fired him

In a move typical of other early sailboat manufacturers, Frank sold Coronado to the Whittaker Corporation in 1968. The business relationship lasted

one year. He says, "I didn't agree with the corporate strategy of running a boat manufacturing facility. I wrote them a letter about some things I didn't agree with, and they called me in and fired me. But that was all over long ago. I was right, as it turns out. We're all good friends now."

As part of the separation agreement with Whittaker, Frank had a non-competition contract for two years and couldn't build boats, except for the smaller ones for which Whittaker hadn't bought the rights. He took a trip to Europe and also built a marina in Oxnard, Calif., that Beattie ran for him for a while. They continued to build the smaller boats, such as the Coronado 15, the Omega, the Super Satellite, and the Drifter. "We wanted to change the name of [the Coronado 15] to make it obvious the boat wasn't built by Coronado Yachts," says Beattie, "but couldn't because the class association wouldn't let us. Frank always liked the names of islands - Catalina, Coronado, Capri. We had thought of the name Catalina and liked it. That sort of clicked."

Beattie moved back home to Ireland for a while, but his boatbuilding days weren't over. He remembers, "I was in Ireland, and Frank called me to say that he was forming Catalina Yachts." That one phone call is all it took for Beattie to return to work for Frank. "One of my first jobs for Catalina was to fly to Hawaii. Some people there were having trouble with the rigging for their Coronado 15s, and I was able to help them out."

**Most popular**



### Catalina 22 diagram

The Catalina 22, the first boat introduced by the company, in 1970.

"I had started building boats in 1961," Frank says of founding a new company, "so I had eight or nine years of experience at it by then. Things were much easier than in 1961."

His first design in 1970 was the Catalina 22, the boat he had wanted Whittaker to build. The C-22 turned out to be one of the most popular sailboats of all time, with 15,500 built. He also came out right away with the Catalina 27, another popular cruiser. The Catalina 30 followed in 1976.

According to Beattie, "The C-22 just took off. We couldn't build them fast enough." Beattie has the distinction of being the first person to sail both the C-22 and the C-27.

In the early boats, Frank used what is called the shoebox design to join the hull and deck. In this



construction technique, the outer lip of the deck fits over the lip of the hull like the top fits on a shoebox.

"I felt the shoebox design was more rigid, and it's basically leakproof. It's a very good way to build boats. We might have a problem in one out of a thousand boats with a hull leak, and even then it's usually something else leaking."

With such a high demand for his boats, Frank had to expand his manufacturing capability. An East Coast plant made sense because of the high cost of shipping boats to the East Coast from California. States Beattie, "Frank sent me east to look for another plant. The shipping costs were killing us. I found a small fiberglass plant in South Carolina that had closed, so we bought it and started building C-22s there. Then we began building C-27s there as well." The year was 1973.

### **Almost threw him out**

Beattie credits a fellow named Wilbur Pokras with much of Catalina's marketing success in the east. "Wilbur was our representative for setting up dealers on the East Coast," he says. "He did a great job for us."

Wayne Miskiewicz, now general manager of Maryland Marina, in Baltimore, remembers Wilbur very well. "Wilbur was the East Coast rep for Catalina and set us up as a dealer in 1970 or so. He showed up trailering a C-22 he had put in the Annapolis show, and he wanted us to buy it. We almost didn't become a dealer. I almost threw him

out of the office at first. But we wound up buying the show model and becoming a dealer. Selling the C-22 was amazing. They all but flew out the door."

He continues, "Frank Butler is the Henry Ford of the boating industry in a sense. He's very serious about offering a good boat at a good price. Since he was the warranty coordinator, he could spot trends with problems and fix them right away. He's very hands-on, maybe too much so at times. Frank took [the warranty coordinator role] on as a method of quality control, and was effective in that way. Frank is quite an interesting guy. He had no one to answer to but himself." By 1977 even the South Carolina plant was too small to handle the East Coast demand for Catalina Sailboats. "One day Frank called me," says Beattie, "to go to Fort Walton Beach, Florida, to look at property for a larger plant. It all worked out, so we moved the plant from South Carolina to Florida, where we could build even bigger boats."

## Unprecedented demand

Wayne says about those days in the sailboat market, "Catalina had trouble meeting production demands, and the dealers were put on a quota system. People were so happy with their boats that they came back and bought their second, third, and even fourth boats from us. The company just grew so rapidly it was amazing in those days. Until we had the huge downturn in the market, used boats often cost more than new ones. Used boats were appreciating throughout the entire product line because demand was so high for new ones."

He continues, "One good thing about Catalina is that it doesn't change designs every year. They would come out with a good design and hold onto it. Hunter was our biggest competitor in those days, but it changed models every couple of years. Catalina had a chance to work out production problems with a long run, but not Hunter."

Seven years later, the company needed an even larger plant on the East Coast. In 1984, Frank purchased Morgan Yachts, based in Largo, Florida. Beattie helped move the Florida plant to Largo. "We were growing so fast," Beattie remembers, "and Morgan Yachts was all but down the tubes. It was a great chance to buy a bigger plant at a good price and to get the Morgan name." Among other large boats, the Largo plant turned out 50-footers for the Moorings charter group. Today it produces C-47s in shifts that run six days a week.

Beattie retired from Catalina Yachts in 1994 after spending more than 30 years working for Frank Butler. "I enjoyed it. Frank was a good guy to work for. We used to race against one another in Satellites and had a great time doing it. It was good fun starting up a company like that, it's interesting all the things you have to do. Frank knows the way to go. He always has. He has great instincts."

## Advertising change

For many years, Catalina was the largest sailboat manufacturer that did no national advertising, a terrific economic advantage compared to its competitors in an industry where spending 6 to 10

percent of the retail price of a new boat on advertising and marketing is not uncommon. Given a changing and much tighter market, Frank had to change to keep Catalina's name in the forefront of the industry. "When we went from medium-sized boats to larger ones, I thought I needed to advertise. It was better for the product and better for the consumer to know more about our products. It was something I felt I had to do."

The late 1980s saw a tremendous depression in the boat market caused by an economic recession and by the 10-percent luxury tax the federal government placed on new boats costing more than \$100,000. Because few of its models exceeded that cost, Catalina was not affected that much by the luxury tax. But the economic recession that saw so many boatbuilders go out of business made for hard times at Catalina as well. How did the company survive when so many others didn't? "I'm somewhat conservative, " Frank says. "I knew that what goes up must come down. I tried to be prepared as best I could. It was tough, no doubt about it. We just got through it."

At Maryland Marina, Wayne Miskiewicz saw the downturn coming. "We stopped selling new boats in 1988," he says. "It was just a business decision we made. We still sell used boats today, but not new ones. But if we were to decide to sell new boats again, it would be Catalinas. They're the best product for the money today."

## Weathered recession

Catalina 27,  
second boat,  
1971

Catalina 27  
diagram

The Catalina  
27, the second  
boat, introduced  
in 1971.

One can make  
the argument

that Catalina's product line, and philosophy of providing "the most value for the dollar in the industry," as Frank puts it, made the difference in weathering the recession that drove other sailboat manufacturers out of business. Many manufacturers had the bottom drop out of their sales volume; but Catalina's business, while also falling off, didn't drop precipitously. The factories stayed busy, and Catalina did not lay off one worker during that time.

According to Sharon Day, Catalina's national and international sales manager, "We had to tighten our belts, but when we were making money we were able to put some of it away for times like that. With the slow market we were able to increase our inventories of boats so we were ready when the market rebounded."

Will Keene, president of Edson International,  seconds the notion about Butler's instincts. Says Keene, "He has the uncanny ability to know the real value of something. He's as honest as the day is long, a guy who speaks his mind. You know where you stand with him every minute of every day. But he also has quite a sense of humor. He's a great kidder, and you don't always know when he's joking. For example, one time he said to me that he was going to put all my competitors' gear on his boats. I nearly had a heart attack before he told me he was joking."

One of Will's first sales trips for Edson around 1980 was to visit Frank in California. "I was scared, absolutely petrified of meeting him. He's a big, gruff guy on the outside, especially if you're a vendor. I was this kid taking over the business from my father and had a lot to prove. Frank suggested a change in a piece of gear, and I took the suggestion back to my boss, who also doubled as my father. He said, 'We just invested a lot of money in that design. Make him like it.' Well, I lost Frank's business on that one."

## Team approach

Will continues, "We ended up building a mock-up of the C-30 cockpit and shipping it to California so Frank and Gerry Douglas could see how it all would work together. Our competitor also had trouble delivering on time, so we soon had their account back. It took us 18 months and a lot of hard work, but we did it."

Will enjoys working with Catalina because of the team approach Frank uses. "He will call me up and say, 'We have a problem,' and ask, 'How can we solve it?' " Will says. "He works with you. He's always very even, whether it's our problem or his, or a combination. We're small potatoes compared to the size of Catalina Yachts, and Frank knows we have limitations, but he expects us to deliver, too. Even if we make some dumb mistakes, which we have, Frank and I will talk about it, and then he'll say, 'OK, let's get going here.' He's great to work with."

Will considers Frank to be a mentor, in addition to being a customer. "Frank told me once that when sons got into the family business, the business usually failed." Will took the words of advice to heart, as something to work on. "I'm still in the process of proving him wrong on that one," he says. "But I probably won't be able to do that until the day I retire."

To what does Will attribute the success of Catalina Yachts, besides the obvious presence of Frank Butler? He responds, "The boats are a reflection of the people behind them. Frank's employees are the best and are very loyal to him and the company. They make good, honest, affordable boats - good sailors

with smart layouts. Just look at the number of people who got into this sport because of Frank's affordable boats."

## Largest manufacturer

Frank is quick to point out that sales manager Sharon Day and Gerry Douglas, head of engineering and design, are a big part of the success of Catalina Yachts. They really have had more to do with the success we've had than anyone else." Both Day and Douglas now are corporate officers and part owners of the company.

Sharon has been with Catalina for 26 years. "We're the largest sailboat manufacturer in the United States, but we aren't run by a large corporation. So we can keep closer tabs on our customers, to make sure they like our products. I think the boat owners like sharing the company's success because they like being part of the Catalina family. And family is the backbone of our company. Everyone who buys a boat is a part of our family. We especially treat our dealers that way. Lots of them have been with us since Day One, and we appreciate that. They are our front line with our customers, after all."

Sharon continues, "Going to a boat show, we not only sell boats, but we also get to see and talk to our customers. Many of them we see at the shows every year." The face-to-face meetings with customers provide valuable feedback for their likes and dislikes, which leads directly to improvements in the product line.

What's it like working for Frank Butler? "He sets the pace for us," she says, "and that's non-stop. Frank keeps things moving. He's perpetual motion, and has a tremendous amount of energy. It's an entirely different feel in the office when he's there compared to when he's not. He's a fantastic man to work for. His heart is in the right place."

## Lots of overlap

Sharon describes Frank, Gerry Douglas, and herself as the Three Musketeers. "We have tremendous rapport together. It's a good mixture. Even though we all have our own roles, there's lots of overlap in what we do, and lots of lunchtime meetings. Sometimes things may get heated, but by the end of lunch we're all back on good terms, and all three of us are heading down the same path."

From his perspective, Gerry sees two big advantages of Catalina's boats: they can be fixed, and parts are readily available. "Our boats are 100 percent rebuildable, depending upon severe damage, of course," he states. "And parts are available from the factory for all our boats no matter how old. This makes older Catalinas excellent project boats for people looking for a good boat to rebuild."

He points out that "we put the decks on much earlier in the manufacturing process than other builders. This is a big advantage to our customers because it means everything inside the boat came through the main hatch. There are no captive tanks or bulkheads. The customer can take out everything in the boat with hand tools. Catalina is unique in that respect.

Most builders put the deck on much later in the process."

He continues, "Our hull liners are designed to distribute loads. Bulkheads don't bear chainplate loads, for example. Those loads pass on to the liner. That's important to know because so many of our owners have modified their boats extensively. Our owners tend to be hands-on people. It's easy to replace things, and you seldom have to cut anything to get a part out."

## Rare features

According to Gerry, another Catalina strong point is its customer-service department. "We have good people owners can talk to about technical issues. That, combined with the availability of parts, is rare in this industry. It makes buying older Catalinas easier. Our boats are good for extended cruising because they have a solid foundation of good, laminated parts.

"Our boats are excellent choices for rebuilding because they are relatively heavy for their length. We still use heavy, hand-laminated, solid glass hulls. We're probably the only builder who focuses on displacement on the light side. This philosophy of durable, rebuildable boats is designed in. It's not by accident," he says.

## Loyal owners



Catalina 30 diagram, 1976

The Catalina 30, the third boat, introduced in 1976.

Should Catalina owners want resources for projects, all they have to do is turn to Mainsheet, a quarterly magazine published by Jim Holder in Midlothian, Virginia. "Frank and I have been good friends since 1970," Jim says. "He asked me to put this magazine together 17 years ago to pull all the newsletters of the various associations into one magazine. I'm the editor and publisher, and Frank is listed as the managing editor. We receive quite a bit of technical assistance from the factory, primarily from Gerry Douglas, who reviews all the material for technical accuracy. Frank is the only manufacturer who does this sort of thing. It's a unique magazine in more ways than one."

Continues Jim, "The magazine is basically written by the owners. They send in all the articles for their projects and such to editors for each association. Those editors send the articles to us to help keep things organized. So it's really written by the owners for the owners. It glues all the association members together. The magazine helps people improve and enjoy their boats - to have fun. That's the object of the magazine, and of Catalina Yachts as well."

He concludes, "Frank has always pushed Catalina Yachts as a family. Mainsheet is one vehicle to keep the family together through communication. People who own Catalinas are very loyal, and most of them move up to another Catalina. They also know that Frank is really good about warranty work and that he doesn't want anything happening to his boats he doesn't know about. It's Frank's one-on-one attitude that makes the family aspect happen."

What is Frank Butler's favorite design, of the many he has built? "I have seven children. That question is like asking me which is my favorite child. I can't say. Anyone who ever asks me that question never gets an answer from me. My boats are like my children. One might be for the ocean, another one for near shore or for racing. I love them all.

"The C-22 and C-30 were both extremely well received. We also have sold a lot of 27s. The 36 just passed 2,000 built earlier this year. We're selling a lot of 42s and larger boats. For example, right now we're building 47s at the rate of three a month."

There's no doubt that, as Beattie Purcell puts it, "The C-22 was the boat that really put us in the market in a big way. We were building five of them a day in California in the early days. Used ones were going for more than a new one because people couldn't get new ones fast enough." Concludes Beattie, "The 22 is a good sailing boat, stable, family oriented."

Frank continues, "You should always try to upgrade your product line. You always need to have something more to offer in a new boat. Otherwise people will just buy used ones."

## Good relations

When asked if he sees Hunter and Beneteau as his biggest competitors, Frank responds, "Yes they are, but really I think all [sailboat manufacturers] are my competitors. I love competition, I really do. You've got to know your competition. I check them out all the time, not just at boat shows. I have good relations with our competitors. We all get along fine."

To this day, Catalina designs all of its boats in-house and has its own engineering department. Two notable exceptions are the C-27 and C-30. "An outside person designed the hulls for those, and I did the interiors and the decks," says Frank. "I try to do what our customers need or want. We try to work around that concept. There's no one better than your customers to help you constantly change and improve. Our dealers also are very important to us. We get lots of input from them. And we are always working on new designs."

Today Catalina Yachts employs more than 700 people building boats in three locations, two in California and one in Florida. It has about 500,000 square feet of manufacturing space. The line includes Catalina, Capri, and Morgan sailboats, Nacra and Prindle catamarans, and a 34-foot powerboat sold as the Islander 34. "We purchased that mold when Pearson went out of business," says Frank. "It's the only powerboat Catalina currently makes."

Capri sailboats are the performance-oriented daysailers developed in the Capri Sailboat Division. Current models range from 8 feet to 25 feet. "Capri is our small-boat division under Catalina as the main structure," Frank says. He notes that several Capri models have very active class associations around the country.

## Bright future

What does the future hold for Frank Butler and Catalina Yachts? When asked how long he expects to run the company, he says, "I enjoy it so much. It's

really in the hands of the good Lord. That's one question I can't give you an honest answer on."

According to Frank, Gerry Douglas and Sharon Day most likely would supply the continuity to keep Catalina Yachts going as it always has, providing "a lot of boat for the money," as most sailors put it.

Certainly Catalina Yachts has a bright future given the thousands of loyal customers sailing its products around the world. The international class associations for the C-22, C-25, C-27 and C-30 are among the largest sailboat groups in the world. Log on to the Internet, and Catalina sites are among the most numerous and busiest to be found. As Max Unger, the treasurer of the International Catalina 30 Association, puts it, "The success of these independent associations emphasizes not only the great number of boats built, but also the family atmosphere created by the owners that keeps us sailing together."

The word family probably best describes Catalina Yachts these days. It's a family comprised of many loyal employees and thousands of loyal customers. And the undeniable head is Frank Butler. He wouldn't have it any other way.

When not working at his job for the federal government or singlehanding his 1989 Pearson 27 in the Annapolis, Md., area, Steve is a part-time freelance writer. He writes for a variety of business and boating publications.

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